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## Viewing cable 05LIMA1361, FINANCE MINISTER ON THE CURRENT SITUATION AND HIS

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- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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Reference ID	Created	Released	Classification	Origin
05LIMA1361	2005-03-21 22:19	2011-08-30 01:44	CONFIDENTIAL	Embassy Lima

Appears in these articles:

<http://elcomercio.pe>

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 LIMA 001361

SIPDIS

E.O. 12958: DECL: 03/21/2015

TAGS: [EFIN](#) [ETRD](#) [ECON](#) [PGOV](#) [PE](#)

SUBJECT: FINANCE MINISTER ON THE CURRENT SITUATION AND HIS  
POLITICAL PROSPECTS

Classified By: Polcouns Alexander Margulies. Reason: 1.4(b/d).

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SUMMARY

1. (C) SUMMARY: Finance Minister Pedro Pablo Kuczynski (PPK), during a 3/18 breakfast with the Ambassador, was uncertain whether the Toledo Administration would be able to hold the fiscal line as pressure mounts in an electoral climate to meet social demands and to show concrete progress on construction of a highway linking southern Peru with Brazil. PPK noted the negative effect on GOP finances caused by the GOP's granting raises to doctors and teachers, and criticized tax agency SUNAT's handling of an investment dispute and the GOP's planned conditional cash transfer program to alleviate poverty. He was confident, however, that the President will veto a bill that would reduce agricultural tax receipts by 180 million Soles (USD 55 million). PPK said that he could be "interested" in a presidential candidacy if a workable coalition could be formed; opined that time is running out on Prime Minister Carlos Ferrero, but did not speculate on who a successor would be. END SUMMARY.

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PPK ON THE ECONOMY

2. (C) The Ambassador opened the discussion by enquiring as to the seriousness of front-page reports in the day's press that PPK had threatened to resign if President Alejandro Toledo did not veto a bill passed by Congress that would exonerate agricultural producers from making advance VAT payments on their produce. PPK said that there was no danger of his resigning over this issue, as he was confident the

President would veto this "irresponsible" bill, which would facilitate tax evasion and cost the treasury some USD 55 million in revenue.

13. (C) The Ambassador then asked about PPK's strategy to deal with rising fiscal pressures in the runup to the 2006 elections, observing that President Toledo seemed torn in two directions over the issue, wanting Peru's debt to reach investment grade status (which would require great fiscal restraint) but also seeking to leave a legacy of new roads and other infrastructure projects to benefit the country. PPK replied that Toledo has prioritized making progress before he leaves office on the planned southern road corridor, to link Peru with Brazil. PPK said "things will happen shortly" on the road corridor, although he had doubts about the accuracy of cost projections. (Note: this project, for which the GOP is expected to offer concessions in the next few months, will cost hundreds of millions of dollars to complete. End note).

14. (C) The Minister also expressed concern over the fiscal effects of recent public sector raises on the budget. He said raises for doctors, granted after a recent strike, would cost USD 50 million in 2005 and USD 80 million annually thereafter, while promised raises to teachers would cost USD 250 million this year and USD 400 million/year thereafter. President Toledo, PPK complained, agreed to the spending increases because of his inability to stand up to social pressures from strikes and other activities. The Minister commented that even with a better fiscal balance Peruvian debt will not reach investment grade ratings until these protests, and other types of social conflict (e.g. protests afflicting mining operations in Peru) diminish greatly. He thought it would take a couple of years of improved social investments for that to happen.

15. (C) PPK expressed frustration with GOP tax agency SUNAT, which he said had screwed up its handling of a major tax issue involving Canadian gold company Barrick. (Note: SUNAT's large tax assessment against Barrick was rejected by the tax court in January, but Congress has opened an investigation into whether the company is evading taxes. End note). He said SUNAT also never should have sent a letter to mining companies asking them how much they consider they owe in royalties, which set the agency up for conflict with the companies. PPK said he called SUNAT head Nahil Hirsh on the carpet March 14 over her handling of the case. He reflected how President Toledo wants to fire Hirsh, but that he is reluctant to do so since she has raised tax collections consistently.

16. (C) PPK then frankly criticized the GOP's planning around its proposed conditional cash transfer program, which would provide targeted USD 30 monthly grants to certain poor families. He emphasized that Mexico's program, a regional model for programs of this type, took seven years to properly design and execute. In contrast, he said the Prime Minister's office, leading the development of Peru's program, is moving too fast. PPK noted three particular problems with Peru's proposal: 1) it is a bad idea to focus this on cities, where Toledo wants to begin, rather than rural areas, because it is hard to get an accurate census of the poor; 2) the grant amount is too high for rural areas, and could provoke violent struggles within families over control of the cash; and 3) the government has no exit strategy, to prevent the program from becoming a permanent entitlement and drain on the Treasury. He concluded that the program will start slowly and have only a minor fiscal impact this year.

17. (C) The Ambassador also asked about GOP plans to name a new President of state oil company PetroPeru, after the recent resignation of Alejandro Narvaez. PPK replied that Peru Posible co-Secretary General and Congressman Jesus Alvarado had nearly convinced President Toledo to place a very bad name in the job, but said he and Energy Minister Sanchez were teaming up to block this person's appointment. PPK said there remains a role for the state company, for example in providing rural areas with gas stations which would otherwise be underserved, but emphasized the need to privatize the Talara oil refinery. Given the current government's weakness, however, he concluded, this will have to wait until the next government takes office. PPK added that Energy Minister Sanchez agreed on the need for private investment in the Talara refinery.

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PPK on Politics and his Electoral Prospects  
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18. (C) PPK had nothing good to say about his new Cabinet colleagues, commenting that new Agriculture Minister Manuel Manrique is "a disaster" who is "outside the lane" on trade issues. He also questioned Manrique's probity. PPK termed new Production Minister David Lemor a "well-known protectionist." He continued that "time is running out" on Prime Minister Ferrero, who he thought would not/not last

until July, but had no information as to who might be the successor.

19. (C) PPK admitted that he harbors presidential ambitions, though he tempered this by insisting that his interest is a "3" on a scale of 1-to-10. The circumstances have to be right, he explained, if such a candidacy is to be pursued. He discounted the possibility that he would run on the Peru Possible (PP) ticket (an idea launched recently as a trial balloon by PP Political Secretary and now Labor Minister Juan Sheput), but said could run on a centrist party's ticket with broad coalition backing. One possibility as an electoral vehicle was the Justicia Nacional party, led by center-right politician Jaime Salinas, but PPK questioned whether a party with at most two percent support in the polls would be suitable, adding that a more established centrist party would be preferable.

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COMMENT  
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10. (C) PPK's frank assessment of the current economic and political situation provides an inside view of the difficulty the GOP may have in maintaining fiscal discipline as the 2006 election campaign heats up. President Toledo is not following a coherent policy line on fiscal restraint, favoring political connections over policy considerations in his new Cabinet appointments, ceding on wage increases in response to protests, and pressing for expedited movement on an ill-thought-out poverty alleviation program and on the southern highway connection to Brazil. With the replacement of Prime Minister Ferrero a question of when, not whether, the GOP is focusing on the short-term and has minimal capability to make tough decisions. PPK's presidential prospects appear equally slight; Sheput's trial balloon generated little public enthusiasm and none of the parties other than Salinas' Justicia Nacional have indicated any support for a PPK run. END COMMENT.  
STRUBLE

=====CABLE ENDS=====